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**FISCAL IMPACT STATEMENT**

**LS 7269**

**BILL NUMBER: SB 299**

**NOTE PREPARED: Jan 4, 2007**

**BILL AMENDED:**

**SUBJECT:** Assessed value of homesteads.

**FIRST AUTHOR:** Sen. Mrvan

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**    **GENERAL**  
                          **X DEDICATED**  
                          **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides, for assessment dates after February 29, 2008, that the assessed value of a homestead that changes ownership in the preceding year is the sale price of the homestead. The bill limits the annual increase in the assessed value of a homestead that results from trending to the lesser of 3% or the percentage change in the Consumer Price Index.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. PTRC and homestead credits are paid from the Property Tax Replacement Fund. If any property taxes are shifted from homesteads to other property, then the state's expense for these credits could be reduced, subject to appropriation.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Under current law, the next general reassessment is will be effective with March 1, 2011, assessments and taxes payable in 2012. General reassessments will then continue on a 5 year cycle. Annual adjustments (Trending) begins with March 1, 2006, assessments for taxes payable in 2007. Both the general reassessment and trending adjustments should result in real property assessments approximating market value for each assessment year.

Beginning with March 1, 2008 assessments (taxes payable in 2009), this bill would change the way that homesteads are assessed as follows:

- 1) For homes that sold in the previous year, the assessed value would be set at the sale price as listed on the sales disclosure form; and
- 2) If the home has not sold in the previous year and it is not a year of general reassessment, then the annual adjustment would be limited to the lesser of the (a) 3% or (b) the one-year change in the Consumer Price Index.

Except for homes that sold in the previous year, the bill would not affect the assessment of homesteads in a year of general reassessment. Also, the assessment in any year must take physical changes to the property into account.

Current estimates look for annual adjustments to increase assessments by an average of between 2.5% to 3.5%, statewide. The change will be greater in some localities and less in others. The change in CPI for the first half of 2006 was 3.8%. The 2004-2005 change was 3.4%. Both the five-year and ten-year averages were 2.5%.

Assuming that the change in CPI remains at or above 3%, then this bill would, on average, reduce annual increases of homestead AV by 0.5% in no-reassessment years. Limiting the growth would shift a part of the tax burden from homesteads to all other property in years between general reassessments. This shift would vary greatly between localities depending on the growth in housing prices.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** Local assessors.

**Information Sources:** Freddie Mac Home Price Index, Indiana:  
<http://www.freddiemac.com/finance/cmhpi/> .

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